

Bachelor's thesis

Information Technology

2017

Dmytro Syrotkin

# DEVELOPMENT OF A MARKETPLACE STARTUP IN FINLAND



BACHELOR'S THESIS | ABSTRACT

TURKU UNIVERSITY OF APPLIED SCIENCES

Information Technology

2017 | 34 pages

Dmytro Syrotkin

# DEVELOPMENT OF A MARKETPLACE STARTUP IN FINLAND

In the center of this thesis is the strategic question of development of a two-sided platform business, also called a marketplace. In its essence, a marketplace connects the sellers and the buyers of certain goods or services. In this case, the services offered are corporate training, consulting and coaching. The research goal of this thesis was to explore good and bad case practices in terms of strategic choices for a marketplace company. The thesis also touches upon the problems associated with business management, from hiring to legal and financial challenges.

The method of the research is the practical experience of the thesis author of founding and leading a marketplace startup in Finland.

The thesis describes the timeline of activities of a startup company Panda Training Oy during for 1.5 years in different areas such as HR, finance, legal, marketing and sales. At the moment of writing, the company is in a state of financial, human resource and sales crises. The most important conclusion is the importance of the agile development of a startup focused on the business-crucial area, in case of a marketplace: go-to-market strategy. The importance of critical validation, legal pitfalls, allocation of financial resources, understanding of investment landscape are also highlighted. Lastly, the thesis ends with the thought that the market for the business idea explored by Panda Training exists while HR industry seems to be in flux, affected by new management and technological innovations.

## KEYWORDS:

Start-up, marketplace, strategic development, technology strategy, business management.

# CONTENTS

<b>1 INTRODUCTION</b>	<b>3</b>
1.1 Literature review	3
<b>2 BUSINESS IDEA</b>	<b>4</b>
2.1 Problem definition	4
2.2 Quantification of the Problem	5
2.3 Key Challenges	5
2.4 Business idea formation	5
<b>3 LEGALITIES</b>	<b>6</b>
3.1 Incorporation	6
3.2 Shareholder Agreement	6
3.3 Legal pitfalls	7
<b>4 HUMAN CAPITAL</b>	<b>8</b>
<b>5 FUNDING</b>	<b>11</b>
<b>6 OFFICE &amp; EQUIPMENT</b>	<b>14</b>
<b>7 PRODUCT DEVELOPMENT</b>	<b>14</b>
7.1 Main Product Description	14
7.2 Assessment of the customer need	17
<b>9 MARKETING</b>	<b>18</b>
9.1 Market	18
9.2 Competition	19
9.3 Target Audience	20
9.4 Value proposition	21
9.5 Business model	21
9.6 Brand positioning	22
9.7 Growth path	23
9.8 Promotion	24
9.9 Sales	25
9.10 Expansion	27
9.11 Customer relationship management	28
<b>10 FINANCE</b>	<b>29</b>
10.1 ROI and ambiguity	29
10.2 Expenses	29
10.3 Sales assumptions	30
<b>11 DISCUSSION</b>	<b>30</b>
<b>12 CONCLUSION</b>	<b>32</b>
<b>REFERENCES</b>	<b>34</b>

# 1 INTRODUCTION

According to Rochet and Tirole (2006, 664), a marketplace is defined as a platform that can affect the volume of transactions by charging more to one side of the market and reducing the price paid by the other side by an equal amount. In other words, the price and design of the business model matter. The questions about the marketplace business model are at the center of this thesis and are reviewed based on a real life startup example fully executed by the author as the leader of this scientific business experiment.

The research questions of this thesis also heavily touch upon the business administration challenges. What is the importance of hiring quality in a startup? What are the best and worst legal startup practices in Finland? What is the marketing and sales strategy for companies with a marketplace business model? What are the best and worst practices of resource allocation?

These and other research questions are reviewed in this thesis using the experience of founding and leading a startup company for 1.5 years.

## 1.1 Literature review

Panda Training is a corporate training marketplace or a two-sided platform for corporate training. In this kind of business, the main question is not whether technology will work but whether the business strategy will. Therefore, the main interest of the author in this study was the business model and the intricacies of the work of two-sided platforms. A good amount of research has been carried out in the field in the aftermath of the success of companies such as eBay, AirBnB and Uber among others.

In the scientific articles on two-sided marketplaces, much attention is paid to the pricing structure and strategies. Eisenmann et al. (2006, 92-101), Hagiu (2014, 71-80), Rochet and Tirole (2006, 645-667) and Evans (2003, 191-209) argue about the crucial importance of the pricing and subsidies in two-sided platforms. The main challenge of the two- or multi-sided platforms, Evans (2003) writes, is to bring on board different customer groups and keep them engaged. Pricing is often the tool that multi-sided platforms use in order to deal with such a challenge. One popular strategy is subsidizing one side of the marketplace in order to attract the other and charge it a premium price to compensate. Parker, Alstyne (2005, 1494-1504) even claim that giving away a product completely is often a good idea. The reason behind is the increase in the demand and the price of another, complementary product - similar idea as in subsidizing, taken to the extreme. They also write that such a product can be given away both to service providers or end customers on the platform, depending on the specific business case.

Another huge topic in the research on multi-sided platforms is, as Eisenmann et al. (2006, 92-101) state, the "winner-takes-it-all" dynamic. Network effects, the importance of complementing products and the overlapping of customer groups all lead to the situation

where the envelopment of one company's product by another, larger platform, might be one of the greatest existential threats to the company.

The papers by Hagiu (2014, 71-80) and Cusumano et al. (2002) also focus on the design of the platform. Technology is fully tailored to the needs of the business in the case of two-sided platform marketplaces. They come to a conclusion that features are important but in the end, it all comes down to the question of the return on investment. The bottom line here is: 'would this produce more profit than it costs us?' Network effects are often found to be important to take into account when calculating the potential of the specific feature to be designed. The design of the platform is also majorly responsible for the governance rules on the platform, which is crucial in mediating the internal competition and relationship with external complementors according to Cusumano et al (2002).

A very intuitive yet interesting point was mentioned by Suarez et al. (2012, 35-41) in the paper on dethroning the established platforms. It is said that it is important to find a distinctive and underserved segment of customers. Differentiation has been a cornerstone of business strategy for a long time. The highlight in the paper is that differentiation is often made based on emerging needs or emerging technology, which has not yet been utilised by the incumbents.

A thought-provoking paper was published by Hagiu et al. (2013, 1-8) with the title "Do You Really Want to Be an Ebay?" In this article, he describes the complexity of the marketplace model caused by the lack of direct control over the products and gives an example of the Zappos company which had to shift from being a marketplace to being a pure reseller. Hagiu explains that there is a whole spectrum between a pure marketplace and a pure reseller and each company should make their own strategic decision regarding to where on that spectrum they want to be. Such a decision, he says, should mainly be based on how much control over the product is needed in order for the company to reach optimal performance.

Many authors have emphasized that marketplaces or multi-sided platforms are very complex in nature and, therefore, it is hard to make generalizations about them. Most of the strategies that worked for some companies do not work for others in seemingly similar circumstances. While it is easy to make conclusions in hindsight, it is quite hard to make any certain assumptions or predictions for the future.

## **2 BUSINESS IDEA**

### **2.1 Problem definition**

In order to educate their employees, most companies use a system of professional development activities. Research shows that organizational learning is one of the few sustainable competitive advantages (Rosenblum and Keller, 1994; Veale et al. 1995). The challenge is that there is no easy and efficient way to manage corporate learning activities. Learning activities can differ from learning need identification and trainer search to training facilitation and evaluation. The corporate training function often relies on the personal

network of a training specialist and the ability of the same specialist to manage the corporate training agenda in an efficient and effective way.

## 2.2 Quantification of the Problem

The total loss to a business from ineffective training is staggering: \$10M per year per 1000 employees (Chui et al. 2012). According to another study, 62% of Managers believe that their programs do not meet their learners' needs (ATD Research 2015). The finding of the Gallup's research (Gallup, 2017) is that only 13% of all employees are "highly engaged," and 26% are "actively disengaged." According to Accenture (Accenture 2016), constantly evolving skillsets and openness to training are becoming crucial for any organization as the technological change accelerates.

## 2.3 Key Challenges

Panda Training's study of the corporate training capability in various organizations showed that the models, processes, and systems used cannot cope with the rapidly increasing need for business agility. While most executives recognize the problem, there is no dominant solution available in-house or on the market.

Key challenges are summarized as follows:

- **Identification of learning needs:** challenge in defining areas or capabilities that require training.
- **Lack of agility:** Long planning cycles, top-down training strategy.
- **Limited networks:** Companies have an established network of trainers, but limited ability and time to scan the local and global market for new trainers with required expertise.
- **Lack of diversity:** Repetition of same courses and material.
- **Lack of market transparency:** No objective mechanism to evaluate and compare trainers and training providers.
- **Lack of feedback:** No effective system in providing feedback and evaluating training results.
- **Manual labor:** Much time is spent on manual training sourcing tasks which could be automated.

## 2.4 Business idea formation

The business idea did not come from the author, the first founder, but rather was synthesised by him. One influential factor was the author's background in training. He was part of a student-run NGO called AIESEC. Without going into detail about the activities of the organisation, it is enough to say that being a student-run organization AIESEC has a very high member turnover. Leadership in every position changes every year. Due to such a high turnover, AIESEC needs to educate its members quite often. The organisation runs more than 700 educational conferences per year worldwide. For such an extensive education program, they also need to educate trainers. The author went through one of the trainer

education programs and consecutively held training sessions at a number of conferences. The outcome was that the author acquired necessary training skills and connections in the training industry through the AIESEC experience.

Upon the return to Finland from a study exchange, the author was advised to start a training agency relevant for Finnish social context, which he did. The training agency was named "Panda". Despite having quite a large team the company did not progress too far until a complete pivot when the author, within two weeks, was confronted by two groups of trainers with the same idea. 'Why can one buy anything on the internet but not training?' was the question raised by a group of training professionals. Among those who raised a similar question was Lauri Paloheimo, a philosophy student who had an idea about a coaching marketplace. He later became the company's co-founder.

The initial idea was simple: a corporate training marketplace. It changed a little throughout time, but the core idea stayed the same. Connecting training, coaching, and consulting professionals and companies buying their services on one digital platform. According to Evans (2003, 331), a platform can create value when three necessary conditions are met: there are two or more distinct groups of customers, there are externalities associated with customers A and B becoming connected or associated in some fashion, and an intermediary is necessary to internalize the externalities created by one group for the other group. This could be compared to AirBnB but instead of housing what is sold on this marketplace is corporate education. The market seemed huge, disperse and resources were allocated suboptimally. The opportunity was clear and inspiring and that is why the company was founded.

## **3 LEGALITIES**

### **3.1 Incorporation**

Incorporation was the easiest part in the process of developing a company. All it took was an application fee of €350, €2 500 of capital on the newly created corporate bank account, application to the Finnish Patent and Registration Office, finding the third "reserve" board member (in addition to the author and the second co-founder Lauri Paloheimo) and a couple of weeks of processing. The application is only available in Finnish and Swedish, official languages of Finland.

The application was submitted on 2.3.2016. While incorporating the company, the proposed name was Panda but it was already taken and it was decided to go for Panda Training due to the nature of the business. That is how the company acquired the name Panda Training Oy. Oy being short for osakeyhtiö, which is the Finnish equivalent of a limited company (e.g., Ltd, LLC, or GmbH).

## 3.2 Shareholder Agreement

One of the most important things in the early stage of any startup is its shareholder agreement. In the capitalist economic system, the ownership of a startup defines the company in a variety of ways. One of the reasons for the significance of the shareholder agreement is a possible future argument for ownership between the founders. Panda Training did not have the shareholder agreement until November 2016. It took roughly half a year due to initial uncertainty about the existence of the company during the spring 2016 funding hunt, then negotiating the amounts of ownership and, finally, drafting the legal document and getting all the shareholders to sign it.

Up until the day of signing, the allocation of shares was changing. The author being the first investor and the first founder de-facto initially owned all the company's shares and then was selling them while bringing on board the other founders. At first, Lauri Paloheimo owned 15% of shares and a board member seat during the incorporation of the company because of the Starttiraha grant he could not apply for otherwise. The amount was agreed to be reviewed later on. The initial agreement with Milan Saric, the third founder and CTO, was 6% of the stock options that he could then later convert into shares due to the absence of financial investment from his side. Later on though, Lauri Paloheimo's share was increased to 25% due to his investment of €7 000 and high involvement with the company. Milan Saric's stock options were converted into 10% of shares due to his highly increased involvement as well. Martti Paloheimo and Jonas Burow owned 4% and 2% respectively for backing up the bank loan thus leaving the author with 59% of the shares.

At first, the founders received a shareholder agreement template from the accelerator Spinno. Before everyone was ready to sign it, Martti Paloheimo doubted the validity of that agreement due to a number of structural mistakes and legal questions no one had answers to and offered to use the help of lawyers. The process was relatively smooth from there on and very helpful in terms of providing significant results and solid legal backbone for the company.

Later, an agreement was made with Henri Virta as a shareholder owning 0.5% in Panda Training in exchange for his investment of €2 500 and his services as financial advisor. Also, the agreement with Taival advisory was signed about converting the hours they use to help Panda Training into shares in the future at the valuation of €3 000 000. The agreement with Henri Virta was never signed since the drafting the agreement would have involved financial expenses, which the company could not afford anymore.

## 3.3 Legal pitfalls

There is a number of legal pitfalls that Panda Training Oy was not able to avoid. One of them is taking care of the accounting and VAT tax returns early on. In the early days, because of high expenses on equipment, the company was not using accountant services due to the future existence of the company being in question and resources being very scarce. In case of the company's sales being lower than its expenses, the VAT tax is returned, which the



founders were unaware about even after using the services of the accountant for quite a while because the accountant was only dedicated to tasks she was asked to do and not giving any advice above what was asked. Another pitfall was the failure to predict the employee healthcare, insurance and tax costs, which rose exponentially. One more mistake was doing the payments for many services yearly, upfront, instead of monthly. Due to having constantly decreasing amount of employees, yearly payments resulted into overpaying. Part of the reason behind those mistakes was that they were handled by the CEO, the author, who was distracted with other operational tasks and did not speak Finnish. Nevertheless, it is safe to say than none of these mistakes were crucial, even though they impacted the company in a negative way.

Perhaps one of the greatest pitfalls was signing non-beneficial binding contracts with different parties. One of them, the accelerator First Round, still is not fully repaid. Another huge mistake made by Panda Training throughout its existence is considering a promised contract a signed one and taking decisions based on that false assumption thus leading to the snowball of mistakes.

Panda Training applied for a provisional patent for corporate training marketplace in the USA in September 2016. The EU trademark was registered in December 2016. These investments did not prove to be practically useful to date.

## 4 HUMAN CAPITAL

Many investors say that the team is the most important factor in a company. Even though there is a research showing the opposite (Baum J.; Silverman B. 2004, 433), it is hard to deny that the human capital plays a vital role in the company's development. One could say that Panda Training was very lucky with the core of the team - the founders. The reason to say so is the fact that the author and Lauri Paloheimo have hardly ever met before starting a company together not even mentioning working together. The third founder was Milan Saric, who the author met while training on one of AIESEC leadership development conferences in Germany in December of 2013. During the conference, the two did not work closely together either. Despite the fact that the founders had never worked together previously, neither had worked on a startup before and the three had never met face to face until December 2016, Panda Training's founder team was very stable and works together until the day of writing.

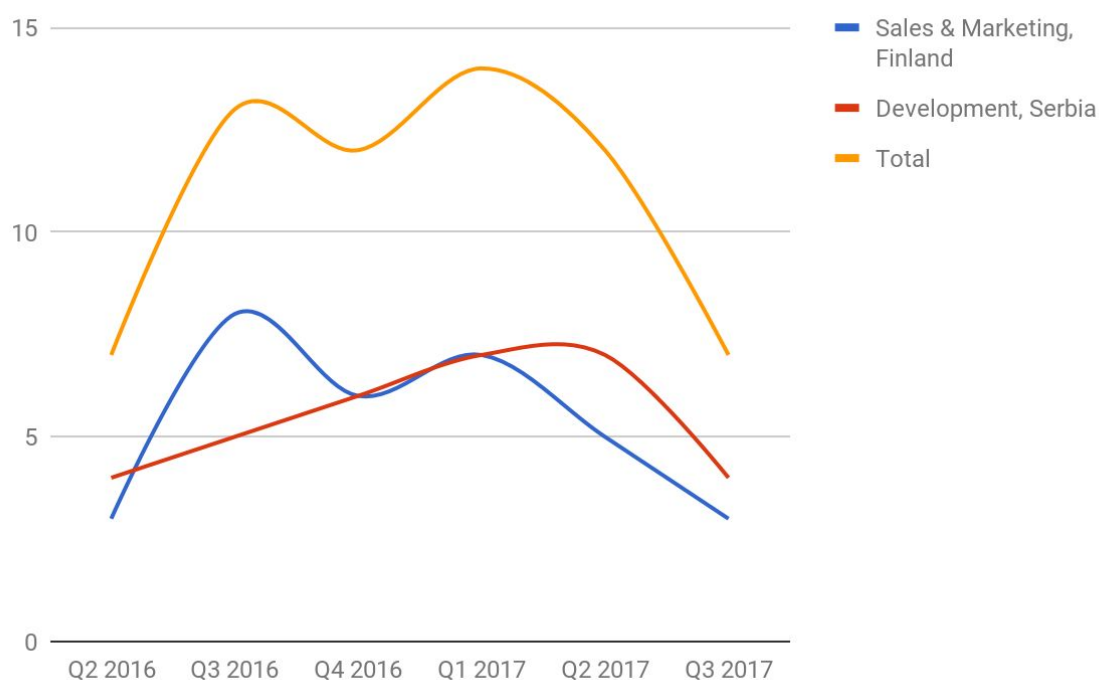
Since the company was founded, the author acts as a CEO. Lauri Paloheimo was offered the co-founder and a head of sales role a couple of weeks after he shared his idea with the author. Milan Saric became involved at the same time at first as a designer. Soon afterwards he was brought on board as a CTO.

Due to Milan Saric being located in Nis, Serbia the development team and development office were founded there. In the second quarter of 2016 the back-end, front-end and iOS developers were hired or brought in as interns.

The author and Lauri Paloheimo worked on sales and marketing in Helsinki office. In the second quarter of 2016, the sales manager Gweal Monykuany was hired, at first without salary but on commission.

In the end of September the sales and marketing office brought on five people. Advertising of open positions was done through Facebook with the support of the employees. The total amount of applications was 19 and the short 30-minute interviews were run. Eventually two of the five applicants hired dropped out being not committed and not proactive. The other three were assigned fairly clear roles over time: as a marketing manager, as a sales manager and as a community manager. The latter one was working online from Greece and running interviews with the service providers of the marketplace (trainers, consultants and coaches) and working towards building the community among them and utilizing that community for marketing purposes.

Meanwhile, during the 2nd and 3rd quarters of 2016, a front-end developer was fired in Serbia due to poor performance and another one was brought on board along side with a new front-end developer and an intern, working on AI-powered algorithms. Figure 1 below illustrates the staff turnover.

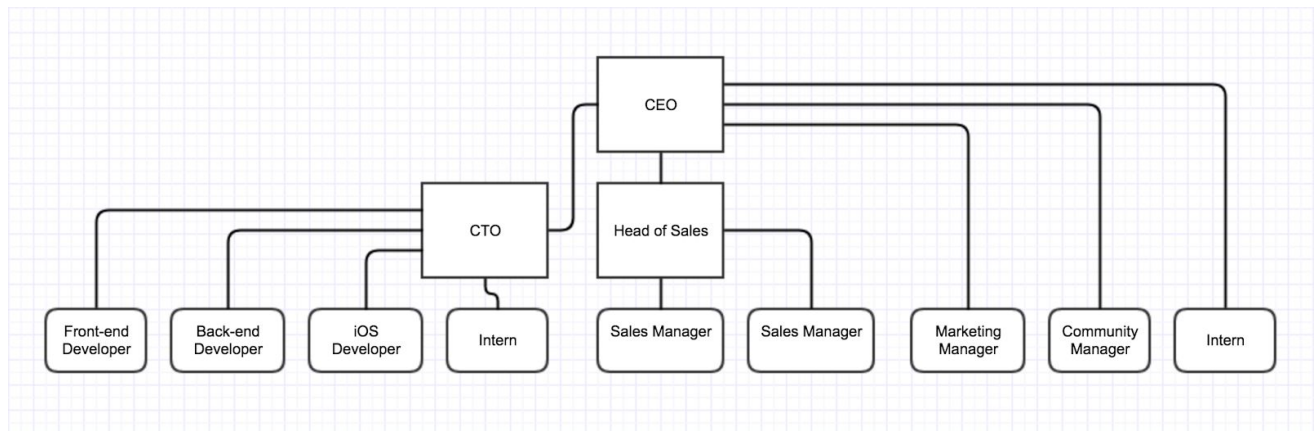


**Figure 1.** Changes in the amount of employees throughout time.

During the 4th quarter no significant changes occurred. During the 1st quarter of 2017 one intern was brought aboard in Finland to help with the mundane tasks and a copywriter was hired in Serbia.

The 2nd quarter of 2017 led to significant changes in the Helsinki office following the financial crisis of the company. In April one intern left due to the end of the unpaid internship

time and inability of the company to pay salary to her. A sales manager left after a talk about his bad performance, not willing to continue. A marketing manager was fired due to poor results; vision which was diverging from that of the management and communication problems. Consequently in the end of May another sales manager left when the company could not afford to pay him the salary anymore and a community manager left due to personal problems. Lastly, in June an intern was brought on board for one month for a limited project to help with reaching out to investors.



**Figure 2.** Panda Training's organization chart during the 1st quarter of 2017.

In addition, one of the founders, Lauri Paloheimo, the head of sales, expressed the desire to work less than full-time on sales due to personal dissatisfaction with the work he was doing. All this evidently shows the state of crisis in which the company was left before the 3rd quarter with the author being the only one working full-time in the marketing and sales department.

Despite a high turnover throughout the existence of Panda Training and firing people always being hard, all the HR changes happened in peace and were never sabotaging the work of the company significantly.

The 2nd quarter did not impact the development team too much as all the remaining resources were streamlined to support it.

What is important to note as well is the relationship between Panda Training and its various advisors and supporters. The experience and relationships were very mixed throughout. One startup accelerator First Round which was recommended by Lauri Paloheimo's relative did not share our vision and the relationship ended with an argument and Panda Training had to pay due to the contract signed with the accelerator while receiving no help in return. Another negative experience was with another accelerator Kasvusaari which promised to bring new sales or bring the money paid back and so far is a few months late on the payment and is not answering any calls or messages. Accelerator Spinno was offering some advice for free for 3 months due to Panda Training winning a certain competition, but the contract was not continued due to doubtful usefulness of the advice. With some advisories such as Prominda the conversation was started a few times but never finished due to unwillingness to commit financially from Panda Training's side. An advisory board was assembled once during the 3rd quarter of 2016 consisting of many people supporting Panda Training at the time and

even though the experience was positive overall, the tradition was not continued due to the lack of commitment from the advisory board members and too much energy required from the author for reaching them. Nevertheless, a couple of very positive experiences and lasting relationships were also formed. Firstly, Henri Virta who made an application for the Tekes Tempo program for Panda Training and later in January 2017 was brought on board as a part-time CFO and investor. Secondly, Michael Hanf and, later, his company Taival Advisory, starting from November was supporting Panda Training immensely with advice, absolutely for free for quite a while.

## 5 FUNDING

Funding is often the bottleneck in the lifecycle of many startups and so it was in case of Panda Training. Nevertheless, the search for funding began with a bit of luck for the founders. It especially helped the fact that public funding is well developed in Finland. While incorporating the company and becoming familiar the startup ecosystem in spring 2016 in Helsinki, the author found out about the grant for entrepreneurs called Starttiraha. As the name suggests, the grant is allocated as a starting money for entrepreneurs who cannot pay themselves salary in the first months of the existence of the company. It accounts for a monthly payment of €800 to an individual entrepreneur before taxes for a year, which is barely enough for living in Finland, but still is a very good support. The author and Lauri Paloheimo, being the two founders present in Finland, both applied and received the grant.

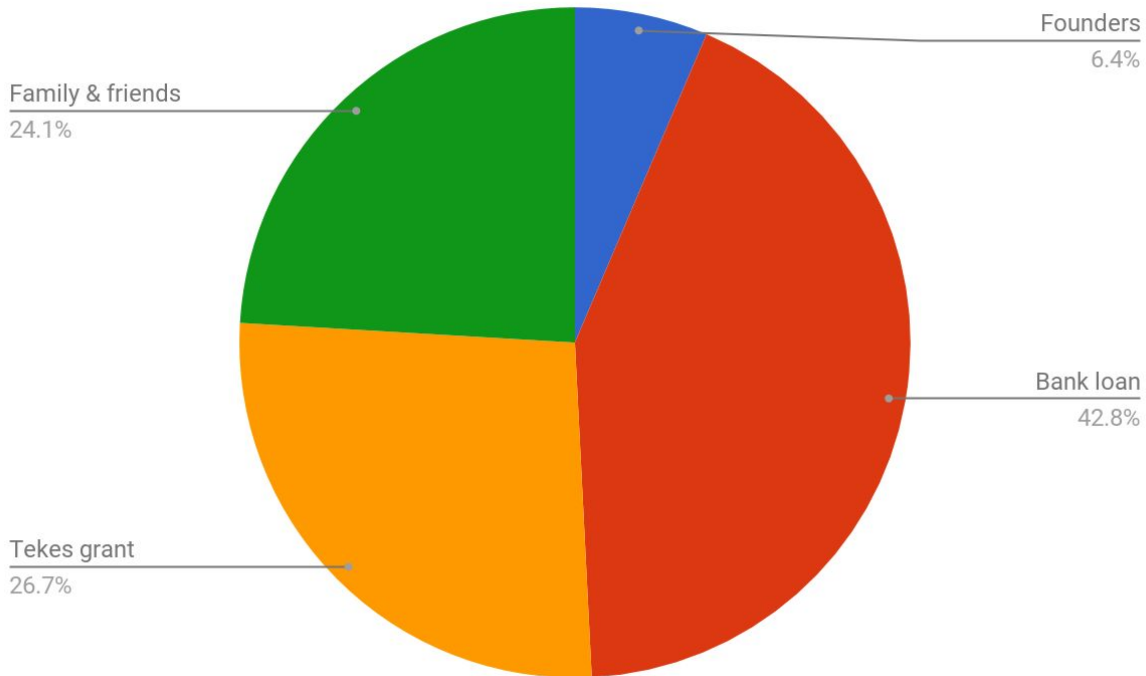
Following those events in late March 2016 the third founder, already as a CTO, Milan Saric convinced the author to invest €5 000 of author's savings as a starting capital of the company to start investing in the development office, equipment, and hiring staff. Due to Starttiraha, the author would have received that money back over time so the risk was acceptable. Once the investment was made, it was hard to turn back since the expenses started snowballing and the search for bigger investment had to begin. While looking for other solutions the second founder, Lauri Paloheimo, had to invest €7 000 of his own savings. Initially it was supposed to be a loan to the company, but later on, after receiving the initial funding and negotiating for the shares, the agreement was to convert it to the direct investment increasing Lauri's claim for the larger amount of shares.

The author messaged some investors of the Finnish startup ecosystem, whose contact information was public. The reply rate was quite high, which raised the spirits among the team. One of the reasons for the high reply rate was that hundreds of emails were sent, overall only about 5% responded. Some declined straightforwardly, some asked for more information and never came back, some agreed to meet. During the meetings some said no, others were ambiguous, but generally speaking the conclusion was quite clear: no one was jumping to invest in just an idea. Experience has shown that generally the Finnish startup investment ecosystem is quite small and conservative. Investors are generally risk-averse and do not invest in the very early-stage idea just because of the hype around it. The expectation from investors is that at such an early stage companies are bootstrapped (started with minimal financial resources) or use family and friends' money. Many investors asked a thousands practical questions, which the author did not have the perfect answers to yet, and which helped the company to think them through for the future.

There was a number of public investors in Finland. One example was Tekes: the Finnish Funding Agency for Innovation, another is ELY-keskus. All of the public options required an already existing sum of money being pulled in to the company from somewhere else. In case of the smallest and most common Tekes Tempo grant for €50 000 the requirement is €37 000 on the bank account. ELY-keskus' requirements were higher and, what is more, are allocated for a later-stage companies already expanding abroad. Finally, one plausible option seemed Finnvera, which provides mostly loans and loan guarantees. Unfortunately, Panda Training was declined a loan due to the author who was the biggest shareholder of the company being a non-EU citizen and not having a working visa for the whole period of the loan.

Finally, the founders tried banks. Nordea, one of the largest banks in Finland, after reviewing the documents including the first draft of the business plan, declined without any comments with regards to the decision. Another bank, with which Lauri Paloheimo was in contact, initially gave a verbal agreement for a loan of €50 000, but changed their mind the following week without any explanations. Finally, the OP bank said that the loan could be a possibility, but only with a guarantee provided by the third party due to the lack of creditworthiness of Panda Training as a startup company. The search for the guarantee began with Finnvera, which backs up 80% of the loan, but Panda Training was rejected again due to the same visa issues. With the help of the family and friends of Lauri Paloheimo the founders were able to collect the backup for 50% of the desired loan of €80 000. Luckily, while attending one startup conference, the author met the representative of the European Innovation Fund, who told about the guarantees provided by this institution in collaboration with the certain banks, and OP was one of them. OP confirmed the information and applied for a guarantee which, fortunately, was exactly 50%. Panda Training received the guarantee and, shortly afterwards, the loan. The loan payment time was 5 years and the first payment had to happen in half a year. The people who backed up the loan, Martti Paloheimo and Jonas Burow, became minority shareholders soon afterwards.

In such a way the hunt for funding since spring 2016 ended. In September 2017 Panda Training applied for and received the Tekes Tempo grant of €50 000, now having the minimum required amount on the account. In order to write an application, Panda Training hired a professional consultant Henri Virta who had the knowledge of Tekes funding applications and that significantly increased the chances for receiving the grant. It took quite some time to get the decision and a lot of bureaucratic actions. One of which was to pay the taxes for Milan Saric's salary from Tekes' money in Finland due to legally unclear to Tekes relationship between Panda Training and its development office where the company was officially outsourcing its development. The Tekes grant allowed Panda Training to pay salaries for the marketing and sales team.



**Graph 2:** Funding, total: €187 000.

In the beginning of 2017, the founders became worried about the financial situation. Unfulfilled sales targets endangered the company financially and a new funding sources had to be found. Panda Training started planning for an investment round, which technically continues up until now due to being so far fruitless. The company had since borrowed the amount of approximately €45 000 from the family of Lauri Paloheimo who initially backed up part of the OP bank loan. The talks with the investors were on and off. General feedback, again, was that the stage of the company is too early. The horizon of venture capital firms starts from €10 000 Monthly Recurring Revenue (MRR) and until then there is very little amount of institutions supporting startups.

Since the beginning of the year, a number of investors have shown their interest in Panda Training. One example is the Australian corporate venture Capital firm Navitas Ventures, which the team met at the Global Silicon Valley Summit in Salt Lake City in May 2017. They shared Panda Training's vision and were excited about the project. After a few meetings with different parties, the agreement was to arrange the demo closer to the end of June, but, despite the promise, Navitas Ventures never sent the invitation or replied to emails since then. Another example is Reima Linnanvirta, a private business angel, who saw potential in Panda Training due to his previous involvement in a company with a similar idea. He gave his soft commitment for a check of €25-50 000 and asked a few documents for a review in the end of June but the founders did not have a chance to hear back from him since then.

Due to the focus on raising investment and losing the team members one after another because of mainly financial reasons, the sales dropped significantly and closer to the end of 2nd quarter of 2017 any progress in sales and marketing stalled. The hunt for investment

and the question of its necessity and timing remains open until now, while the need for increasing the sales is evident.

## **6 OFFICE & EQUIPMENT**

One of the 'family and friends' investors who backed up the loan of Panda Training, Jonas Burow, happened to be working at Finnish-German Chamber of Commerce at the time. Because of him, early on Panda Training became affiliated with the Finnish-German Chamber of Commerce and acquired an office from them right in the center of Helsinki at a considerable rate. Since then, the company has been occupying it. In the early 2017, the plan was to expand the team and therefore, perhaps, rent a bigger office. Fortunately, the decision was made to stay in the current office due to rising financial problems, which soon also led to the cancellation of the team expansion plans. Marketing and sales team members were asked to use their own equipment, which usually meant mobile phones and laptops.

The development office was quickly rented and renovated in the city of Nis, Serbia, close to the residence of the CTO, Milan Saric. The author visited the office upon its opening and brought in the equipment from Finland due to the lack of official Apple stores and therefore higher prices for equipment in Serbia. Computers, mobile phones, accessories and furniture constituted the biggest expenses and still constitute the biggest physical assets of Panda Training worth around €7 000.

## **7 PRODUCT DEVELOPMENT**

### **7.1 Main Product Description**

The problem Panda Training is trying to tackle is broad and fundamental, and there are many different approaches to tackle it. Panda Training is developing one of such solutions: a corporate training marketplace.

The marketplace is needed because companies find that searching, comparing, and evaluating different trainers takes too much effort, time and money. Trainer and training companies, on the other hand, find it difficult to attract a continuous flow of customer companies and spend much of their time searching for clients.

Panda Training solves these problems by making the search-and-book process as easy as possible. Corporate clients looking for trainers only need to fill in their preferences (budget, need, category etc.) and they will receive a filtered amount of people which they then compare and evaluate by looking at their ratings, reviews and references given by their previous clients.

There are currently several types of service providers available on the platform (e.g. "Trainers", "Consultants" and "Coaches") clustered in different ways (e.g. "Countries", "Languages", "Price Range", etc). These service providers can be grouped in various training and consulting companies. Service providers can also offer an array of products

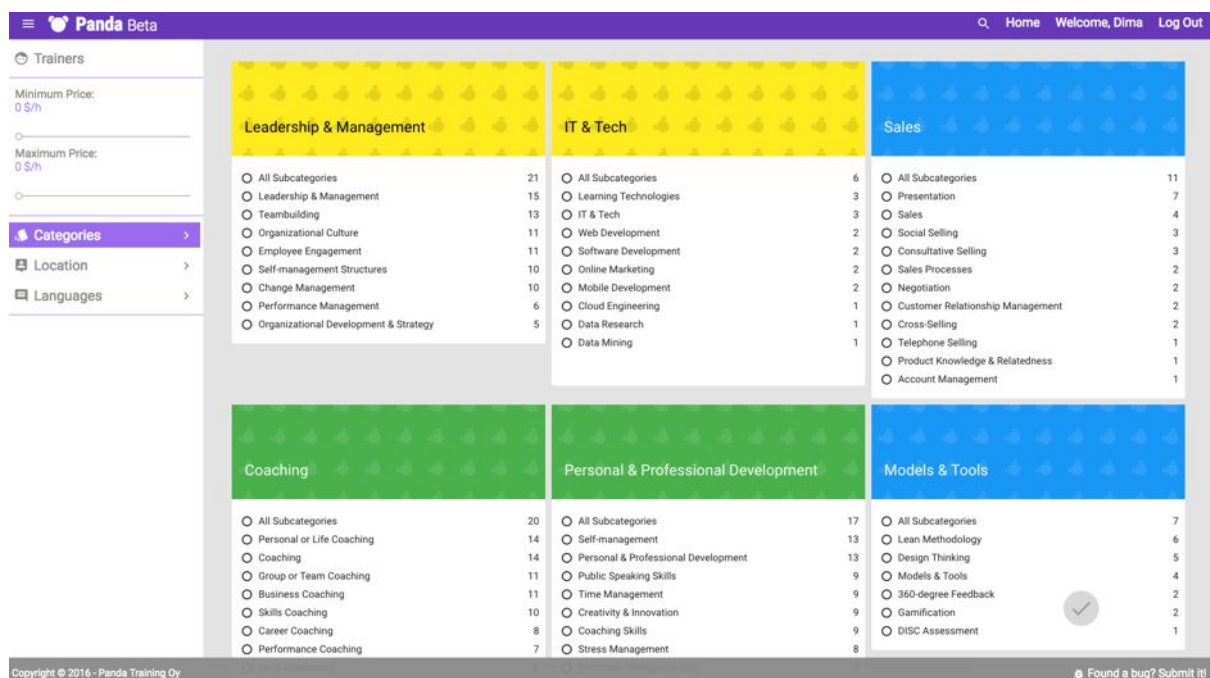
(e.g. “7 Days Leadership Training”). All of these services are currently clustered in 65 “Categories” including: “Leadership & Management”, “Account Management”, “Coaching”, etc.

Using the Panda Training's Platform, corporate trainers, consultants, coaches, and training companies can advertise themselves and their services. Corporate clients (both managers and employees) can search, find, and purchase services that they or their organizations need. Employees can request a service from any number of service providers and managers can approve those requests.

The revenue on the platform is generated from a commission charged from trainers that get clients via the platform.

The marketplace has multiple advantages compared to competitors:

- **Search feature:** companies can search trainers according to location, field of expertise and language skills
- **Reference and rating system:** summary of feedback can be seen in the trainer profiles
- **Earnings-logic:** Trainers only have to pay a commission for the work that they receive via the platform. Having no sign-up-fee is tempting for trainers. Companies need to pay a small sign up fee that is compensated by the time and effort saved by using the platform's multiple features to find the right expertise.
- **Quality guarantee:** All of the trainers on Panda Training's platform are interviewed by the company personnel. This decreases the possibility of costly errors for HR managers of customer companies caused by choosing an incompetent trainer. This also saves HR managers' time.





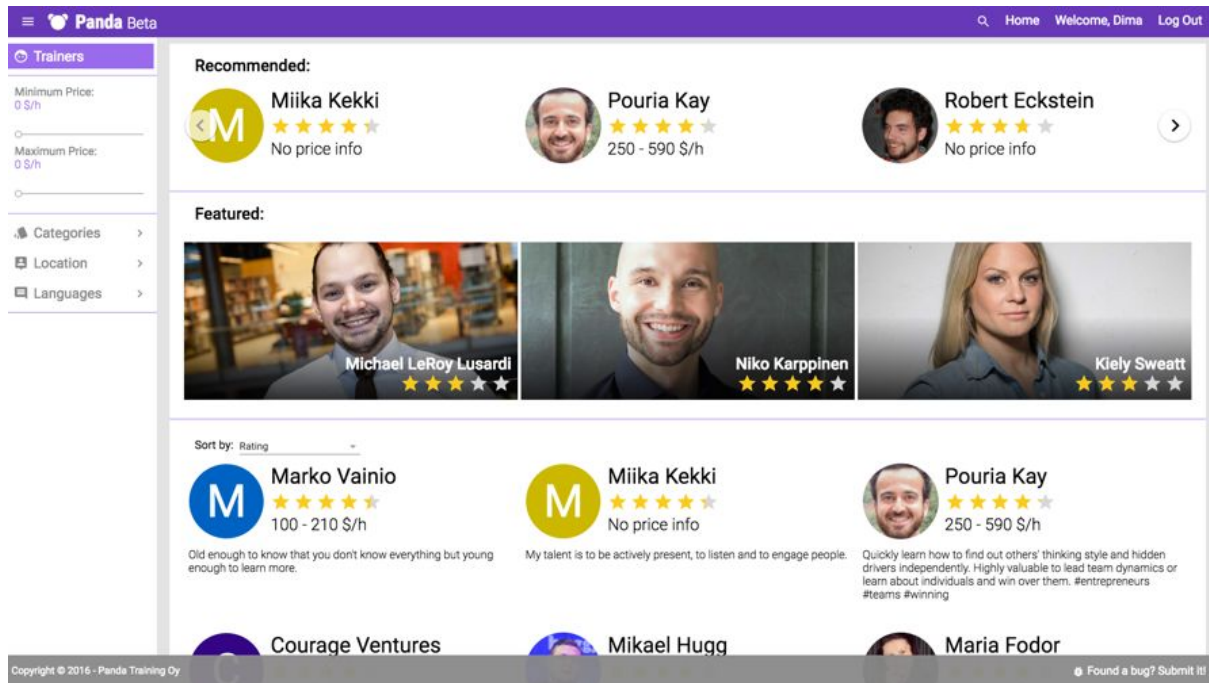
**Picture 2:** *Panda Training's extensive search feature makes it easy to find the right trainers for a variety of needs. Trainers can be filtered according to price, location, languages and categories. The categories stand for trainers' fields of expertise and can include, for example, IT & Tech, Sales and Leadership & Management.*

Panda Training's aim is not only to create a marketplace, but to create what is internally called an "intelligent marketplace". The clients always know what they want, but not necessarily what they need. Before going to the marketplace, many of them seek to clarify the need. Panda Training's platform can help them with tools such as AI-powered big data analysis of the employee assessments as well as information on the platform. For now, the company is experimenting by bringing in the consultant to the company while developing the neural network. This consultant's role is to interview people on the different levels of organization, listen, observe, analyse and provide the report to the management. Due to hierarchical gaps, this kind of external perspective is often invaluable.

An intelligent marketplace evaluates the effectiveness of the training. As any marketplace Panda Training's platform has an essential element such as **reference and rating system**. For now, it is based on three criteria: how easy it was to work with the trainer, what was the quality of delivery and what measurable results the training has brought. Panda Training asks the customers to evaluate the results of the training 6 months after the delivery. As part of the contract, every customer must evaluate the service provider on these three metrics on a scale from 1 to 10 and provide a review. This and other data is fed to Panda Training's algorithms which are then able to accurately predict what are the customers' needs based on the type of the company they are, what growth rate they have, their previous trainings etc.

Customers are thus presented with the tools designed to help them to find out the needs of their own employees efficiently as well as judge the effectiveness of the trainings they are paying for. Panda Training believes this will greatly increase the effectiveness of the trainings provided to the customers while lowering the costs of such affairs.

To sum up, from User Experience (UX) perspective, Panda Training's corporate training platform makes it obvious for company users which ones of hundreds of trainers are best suitable for them. Panda Training aims to make the process of purchasing the training, coaching and consulting services very easy and efficient.



**Picture 3:** Catalogue of trainers on Panda Training's open beta-pages. Trainer catalogue makes it easy for corporate customers to see trainers relevant for their needs.

Currently, the product is in open Beta and includes the following features:

- Creating a trainer profile: the profile includes basic information of the trainer and their skills
- Creating training pages: available for both individual trainers and training companies
- Search feature: companies can search trainers according to location, field of expertise and language skills
- Reference and rating system: summary of feedback can be seen in the trainer profiles

Except the web-based platform the release of the iOS application is technically possible in the near future.

## 7.2 Assessment of the customer need

The idea of an assessment was a natural one since from the very beginning the founders imagined the platform having three parts: need identification, marketplace and evaluation of results. As was mentioned previously, experience has shown that quite often the customers do not know themselves what their company needs. The initial idea was to use the help of consultants to interview employees on the different levels of hierarchy and deliver the insightful report to the management. Soon enough the question of automating such an operation was raised since automation could allow Panda Training to decrease the cost for such product and allow scaling. The first step on a path to automation is to conduct surveys instead of physical interviews. Surveys have their pitfalls but also allow numerous advantage including scale and time saving. The second step is to shift from using consultants to analyse the results of the survey to using AI-powered algorithms that understand the

questions, answers and interpret the meaning of them and their relationship. Thus, one more product was added to Panda Training's portfolio, currently just as a Survey Monkey service-based survey backed by an expertise of consultants from Taival, who are the advisors of Panda Training Oy. The first sale to financial services Dutch company CMIS Group was done only recently and, in comparison to corporate training marketplace product, this product so far constitutes a way bigger short-term revenue potential bringing around €4 000 from just one assessment. Initially the company was planning to subsidize this product in order to use the potential network effects externality benefits (Parker and Alstyne 2005, 1503) of attracting more customers to the marketplace. Nevertheless, due to the current financial stagnation of the company, Panda Training might need to focus on the development of the assessment product in order to get short-term revenue benefits.

## 9 MARKETING

### 9.1 Market

Corporate training and education is a high volume market. Training Industry Inc. estimated the global market size at \$355.6B with the growth rate of 10.4%. Nordics, the "proof of concept" market, are around 4% of the total market. USA, which is the aim for expansion in 2019, is 41%.

**Table 1.** Corporate training market size 2007-2015. Source: TrainingIndustry.com

	Global Spend (USD)	North America (USD)	Rest of World (USD)	Annual Growth Rate
2015	\$355.6B	\$160.0B	\$195.6B	10.4%
2014	\$322.2B	\$150.2B	\$172.0B	4.9%
2013	\$306.9B	\$141.7B	\$165.2B	5.2%
2012	\$291.7B	\$131.3B	\$160.4B	2.0%
2011	\$286.0B	\$128.7B	\$157.3B	5.5%
2010	\$271.1B	\$122.0B	\$149.1B	10.9%
2009	\$244.4B	\$110.0B	\$134.4B	-17.3%
2008	\$295.6B	\$133.0B	\$162.6B	-2.2%
2007	\$302.2B	\$136.0B	\$166.2B	NA

## 9.2 Competition

**Currently Panda Training does not have direct competitors, but there is a number of indirect competitors:**

- *Web-listing Services:* **Training Industry, EMG: affiliate marketing business model.**
- **Marketplaces focusing on similar or broader markets (i.e. Upwork, Profinder).**
- *MOOCs (Massive Open Online Courses) Marketplaces (i.e. edX, Coursera).*
- *Training agencies:* **traditional business models.**

**Some examples:**

- Coachilla. Coachilla offers a catalogue of life and career coaches for consumers. Panda Training differentiates itself by focusing on business coaching and offering reference and rating systems and a sophisticated user interface.
- TrainingIndustry Inc. also has a catalogue of training companies. No reference and rating system. Panda Training views Training Industry Inc. more of as a potential partner than as a competitor since Training Industry has indicated its interest to cooperate.
- Speakers' Forum. Speakers' Forum offers a catalogue of active speakers for company events. The platform does not have a rating system and is directed to fulfil a different need: Speakers Forum offers speakers for company events whereas Panda Training offers the full package of company trainers.
- Trainers' House. Trainers' House is the largest Finnish training company. Trainers' House has a wide variety of customers but it only offers its own consultants at their use. The customer company has no means of screening effectively the trainers that they get.
- Consulting giants such as Deloitte, Accenture and Mercury. Traditional consulting companies have many consultants to offer for their client companies. However, these client companies have a very limited possibility of viewing the competences of consultants or choosing the ones that they prefer. Additionally, there is no rating system to convey the experiences of previous customers of individual consultants inside these large firms. There is also plenty of room for collaboration with these large consulting companies.

Based on our thorough research online, interviews with 500+ corporate educators, interviews with 200+ potential clients and interview with one of the largest training media companies in the US - Training Industry Inc. - we came to the conclusion that currently there is only one company that could be called a primary market player: Educations.com Media Group (EMG). Panda Training has a number of differentiators in comparison to EMG. EMG is a catalog of courses. EMG is mostly used by individuals: organizations often need customized solutions, not fixed courses. Their business model is the opposite of Panda Training's: they charge service providers for putting up a course. This model makes EMG more focused on satisfying the needs of service providers rather than companies and on providing visibility rather than a quality match. EMG does not have a reference and rating system or individual trainer profiles and, therefore, could be called only an indirect competitor. Differentiation by focusing on emerging needs is a known competitive strategy, also used in the world of platforms (Suarez and Kirtley 2012, 38) and that is exactly what Panda Training tried to do.

Another significant indirect competitor might be training agencies (and consultancy firms). Panda Training could be called a digital training agency. To avoid unnecessary competition Panda Training works with training agencies as service providers: Panda Training brings transparency to the market and provides tools while training agencies handle the human aspect of the training management process.

### 9.3 Target Audience

#### 1) Customer segments

Currently, almost a year after open Beta launch, Panda Training has 4 paying clients, which fall into 3 categories.

1. Corporates (typically 500+ employees, have their own in-house training department, have an extensive network of training partners, e.g., S-Group).
2. Growth companies (typically 50+ employees, growing 10+% month-to-month, hiring, e.g., Vainu).
3. Training agencies (typically have €1M+ revenue and a need for external contractors in peak periods, e.g., FCG International).

Industry segmentation:

- Energy & environment: big supplying partner, big market in Finland
- Management consulting: ongoing client adoption, easy to supply
- Enterprise services: huge buying possibility, opportunity of international market entry

Since December Panda Training has been running an experiment where the team allocates one salesperson to each segment. The results of the experiment are hard to judge and make solid conclusions from the data due to several factors being involved. In spring we decided to focus on the growth companies and training agencies to boost the credibility and the amount of transactions before shifting our focus towards corporations in the second half of the year. The primary reason for that was that despite the fact that corporations hold the greatest potential, the decision-making process and credibility requirements might be off-setting at this stage.

#### 2) Understanding the customer persona

Our main target audience groups are:

- Training responsible (HR, Learning & Development, Training).
- Decision maker (executives, could be CHRO, CFO, CEO).
- Economic buyer (CFO, CEO).
- User (employee).
- Trainers, consultants, coaches.
- Training & consulting companies' executives.

Most of the people responsible for training are easily approachable. The character and tone of discussions is usually amiable. Quite often the one responsible for

training does not have the full decision power and needs an approval from the decision maker (often, operations unit manager) on the training plan and budget. Panda Training's sales process usually goes through the training responsible to the decision maker or economic buyer.

### 3) Market research

The team carried out an extensive market research in February 2017. The aim was to assess Finnish and Dutch markets in the following aspects:

1. Addressable market size analysis.
2. Business culture.
3. General corporate metrics: revenue, amount of employees, budget for SaaS subscriptions.
4. Training system: training needs, training budget, in-house/outsourcing ratio, training sourcing system, training planning (training request source, training manager, training user, decision maker), training evaluation.
5. Target audience analysis: customer segmentation and customer persona.

The results helped to adjust the sales strategies. Yet, it is hard to evaluate the significance of the research due to the absence of the huge growth in sales results.

## 9.4 Value proposition

The value proposition for companies includes:

- 1) **Liquid training workforce:** A flexible, diverse and transformative education force as a solution for the organization to rapidly adapt, learn and lead the coming changes
- 2) **Empowerment of learning:** The right tools and support that enable the employees to take their own initiative in learning and self-development.
- 3) **Digitalized planning and selection process:** digital platform allows fast and easy access to external expertise, complete transparency of the market and the possibility to find cost-effective solutions.

For trainers:

- 1) **Marketing outsourcing:** without any payment upfront, saving the time that can instead be spent on training.
- 2) **Transparent competition:** competition with other service providers based on the quality of the service and customer references.
- 3) **Community:** connection with the community of other trainers, consultants and coaches for learning and collaboration opportunities.

## 9.5 Business model

Panda Training is a two-sided B2B marketplace. On one side, the supply is provided by professional corporate trainers, consultants and coaches. On the other, the demand is formed by learning and development, training and HR professionals who are interested in

training and development solutions. Companies can take various positions on a scale between a reseller (buying and then reselling products) and a multi-sided-platform model (providing a marketplace in which buyers and sellers transact directly with each other) (Hagiu and Wright 2013, 6). The main reason why Panda Training chose the marketplace model is the limited capital, which would have been otherwise needed to start off in the reseller model.

Initially client companies were charged either €990 yearly or €99 monthly subscription to gain the access to the marketplace. To those who wanted to try the system, Panda Training offered 1 month free trial, which automatically renewed into a yearly contract if not canceled. In March 2017 the decision was made to cancel the subscription numbers. The cancellation of the subscription did not lead to the increase in sales. One of the reasons could be the financial crisis inside the company and focus on the search of investors but other factors could be involved.

Corporations with their own trainers (e.g., S-Group) can buy a €12 000 yearly subscription for the ERP (Enterprise Resource Planning) system to manage in-house trainers. They get the marketplace in a bundle.

In a two-sided marketplaces, the crucial strategy question is, which side should you subsidize, and for how long (Eisenmann et al. 2006, 94)? On Panda Training's platform the service providers are subsidised and are given access to the platform for free in order to achieve high volume on the marketplace in minimal time. In case of hiring 10% of the total project size is subtracted from the trainer's payment: this is the main revenue stream for Panda Training. Payments go through Panda Training. The logic behind pricing was to charge more the side that stands to benefit more from the presence of the other side or sides on the platform (Hagiu 2014, 76). Despite the low success with the other side of the marketplace, it is relatively safe to say that subsidising the service providers was the right decision for Panda Training.

In the 2nd quarter of 2017 the new product was added to the portfolio: employee assessment. The revenue from the first trial client CMIS Group is €4 000 yet the plan is to charge €10 per employee in the future in order to make the product more affordable. Heavier usage of employee assessments should lead to heavier usage of the marketplace.

## 9.6 Brand positioning

Panda Training aims to position itself as the accelerator for the future of corporate education. The company is using the tools such as content marketing through social media to establish a thought leadership in the space. The founders also realise the importance of local community and want to engage it through the variety of events and networking with local influencers. Another important part of the brand positioning is industry partnerships: Panda Training wants to represent the future of education partner for the companies that are known for innovation.

The founders aim to take the fundamentals of the brand in place: *alignment of all communication with the vision and consistency*. The goal is to align the design with the theme of evolution of corporate education and lean, simple, bold, material design. At the same time, the aim is to speak the language of the customers and align all the communication in style. Part of responsibilities of the marketing personnel is creating the processes for tracking the alignment of the marketing content with the vision.

## 9.7 Growth path



**Picture 4:** Internationalisation plan from the 1st quarter of 2017, which might not hold true in terms of the timeline but still holds the best step-by-step internationalisation order in the mind of the founders.

The primary tools for scaling are industry partnerships and consumer marketing. Panda Training believes that the target customer with the biggest potential are corporations and the path to scaling is to validate the product with them. Before that, the company would need to gain market credibility by selling the solution to training agencies and growth companies. Once the company has the big brand names on board, it should be easy to acquire other corporations. Another tool Panda Training wants to use for expansion is consumer marketing, specifically through mobile applications. The product allows to give employees a choice to choose their own training. The aim is to develop the product in a way that it would be extremely easy to use and quickly adopted by employees, therefore promoting the product inside the organization.

Finland is the market Panda Training started from. Development and sales offices were opened in April 2016. The Alpha product was launched in July and open Beta in September. Since then, Panda Training has been selling in Finland. Before going for expansion, the goal is to run through a full product cycle: subscription - transaction - training - evaluation preferably, with at least 5 clients. The aim is to achieve that goal and have a total of 15 clients and 7 transactions before Q1 of 2018. Until then, it was also decided to test the product in Amsterdam. The result was selling the first employee assessment to the CMIS group in The Netherlands.

Amsterdam is a gateway to Europe, middle-sized market with high international potential, centralized economy, has direct sales and early adopter culture, has high level of English fluency and good geographic location.



The plan is to continue the expansion in Q2-3 of 2018 to London. Despite Brexit, London remains one of the main European international business hubs. The goal then is to continue expansion to New York in 2019. USA has 41% of the global corporate training market. Even though it is highly challenging and competitive market, the expectation is to have enough resources to tackle the challenge by 2019.

## 9.8 Promotion

From September of 2016 upon hiring a marketing manager, Panda Training's online marketing started its activity. For quite a while the marketing messages were quite rare, not consistent and ineffective. One exception was the promotion to the service providers (trainers, consultants and coaches). The author of this paper wrote a few articles about the corporate training marketplace, its idea, purpose and what it means to the industry and those articles found resonance among the service providers. The articles were published in the specific LinkedIn groups. In one of the groups an article became so popular that every member in the group (about 80 000 people) received an email about the trending article and an advice to check it out. Evidently, the value proposition to service providers is high: getting new clients for free. This event was a very good sign for Panda Training making the product way more viable for the customers. Any platform is dependent on its complementors (Cusumano and Gawer 2002) and Panda Training is dependent on its complementors as well, who in this case are the suppliers: coaches, consultants, and trainers.

Nevertheless, the client-related marketing was not so effective. There was little to show for the results and due to inability to find common ground, the marketing manager was fired in the second quarter of 2017.

Early 2017 promotion plans that were never realised:

*"Starting from March Panda Training will run consistent marketing campaigns (one at a time). All promotional activities will be aligned to advance the campaign. Those activities will include content marketing, social media, advertising, email, events and referral. Short-term marketing timeline:"*

**Table 2:** *Promotion plan.*

Feb	March	April	May	June
<b>Market research</b> <b>Website update</b> <b>Promotion campaign planning</b> <b>Hire copywriter/designer</b>	<b>Promotion campaign launch</b>  <b>Development of marketing materials</b>  <b>Amsterdam promotion test</b>  <b>Integrate client email automation</b>	<b>Promotion video development</b>  <b>Amsterdam promotion campaign</b>  <b>Finding 1 big partner in Amsterdam - local knowledge, reputation, higher reach</b>	<b>Summer campaign</b>  <b>Amsterdam promotion campaign</b>	<b>Community development</b>  <b>Referral campaign launch</b>

After that, the community manager took the responsibility of promotion on herself. The posts on social media became way more frequent and visual. Except for the amount of people reached, which increased, it is hard to prove whether the approach was effective or brought any results in the end. Whether corporate training marketplace is a product that can be sold online in a modern world and whether online marketing can be effective for a B2B product in this price range still remains an open question.

## 9.9 Sales

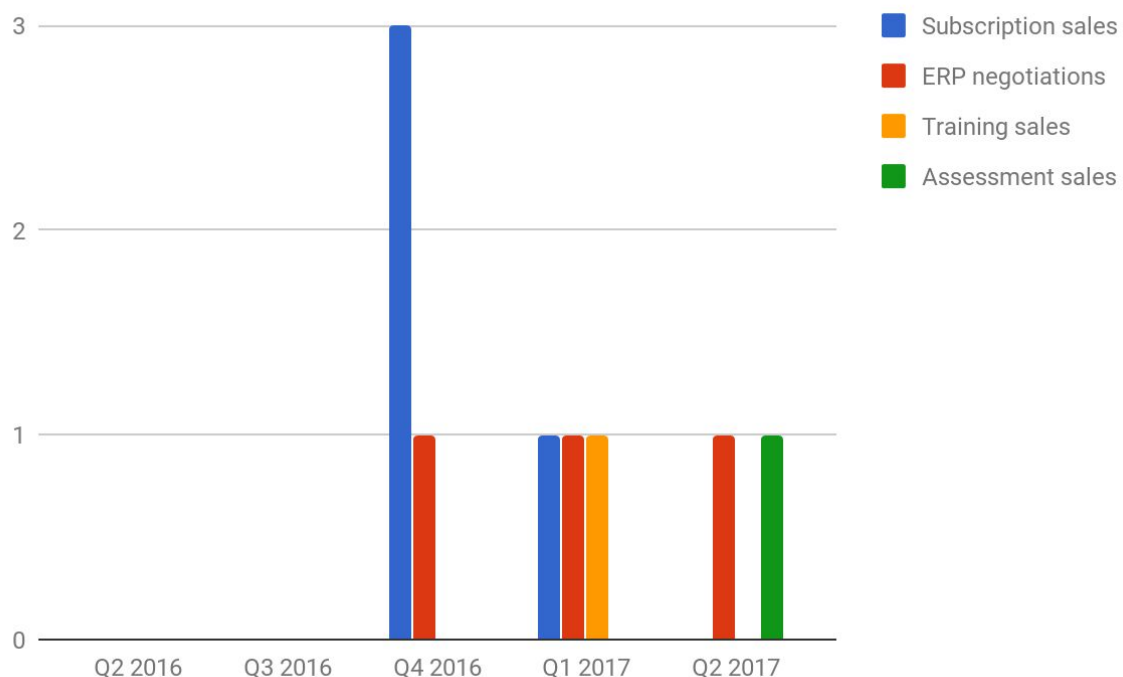
Direct sales has been the primary channel for our sales and most probably will continue to be so throughout 2017 due to the nature of the target audience, weak brand, and the size of the deals.

The nature of Panda Training's sales team's work was a 2 - 4 people calling directly to the HR directors of various companies. Despite the consistent tries to steer the team in the direction of targeting certain types of companies, the targeting was quite inconsistent. Surprisingly to many Panda Training's advisors, the team was successful in reaching important decision makers in Finland and setting up the meetings with them. The problem was closing the sales in the meeting. Sales performance was poor.

**Table 3:** The unfulfilled sales plan from January of 2017.

Feb	March	April	May	June	July	August
<b>Account management</b>  <b>Shadowing HR professionals</b>  <b>Experiment with need assessment consultancy</b>	<b>User activation</b>  <b>Testing the transaction process</b>  <b>Preparation for the testing in April</b>	<b>Amsterdam 1-week testing</b>  <b>Feedback and redesign of the transaction process</b>	<b>Preparation for the expansion</b>  <b>Account management of the test markets</b>	<b>Preparation for the expansion</b>  <b>Feedback and redesign of the transaction process for test markets</b>	<b>Expansion to Amsterdam</b>	<b>Expansion to Amsterdam</b>
New clients: 1	New clients: 3 Transactions: 1	New clients: 5 Transactions: 2	New clients: 4 Transactions: 2	New clients: 2 Transactions: 2	New clients: 0 Transactions: 0	New clients: 2 Transactions: 1

Currently, almost a year after open Beta launch, Panda Training had 4 clients paying for corporate training marketplace subscription and one training purchased and realised through Panda Training. A deal for the first employee assessment with the Dutch financial services company CMIS should be signed soon. A deal with the Jollas Institute, which is the training subsidiary of the Finnish retail giant S-Group is still in the air after almost a year of negotiations and failed demos. Around 5 - 7 companies have made a verbal agreement about using the service in the upcoming autumn.

**Graph 3:** Sales Results.

From a service provider perspective, there are more than 350 trainers, consultants and coaches from 30 countries, most of which are from Finland (50%), The Netherlands (10%) and USA (15%). Due to the service being free to subscribe for trainers, there are comparatively no challenges with growing this side of the marketplace.

Panda Training has a few partners, the most prominent of which are Barona and German-Finnish Chamber of Commerce. Barona is interested in a sales partnership and we are working on organizing an event for 300 HR Directors, being part of their software Barona Experience as well as cooperating with their sales workforce.

## 9.10 Expansion

Two expansion trips and one investment hunting trip were attempted during the existence of Panda Training to date. The first expansion trip was organised during the summer of 2016. The author and Lauri Paloheimo as the CEO and the head of sales went to New York. The plan was to buy a one-way ticket, buy local sim-cards on arrival and start calling. Then, either expand to United States or leave some sales managers behind or retreat completely depending on the sales progress. The optimism at the time was fueled by a numerous positive responses from the potential clients in Finland. Several people were interested yet no one bought anything, partly because of not having a product but only a demo we were not selling anything. The founders failed to distinguish a sale from an interest. The interest was promising enough at the time and Panda Training was hoping to achieve at least the same results in the United States. One of the problems that was recognized upon the arrival is the utter insignificance of the telemarketing in New York in 2016. It seemed that one needed to make a hundred calls to get through to a decision maker versus 5 or 10 in Finland. Due to high competitiveness, United States seemed to be heavily shifting towards the inbound marketing: the clients find the sellers themselves and the sellers are working on being found and referred to more easily. Due to high competition, there was so much clutter that people did not want to partake in it anymore and were only taking calls from people they know. While in New York the founders met a number of consultants, who help with expansion to the United States. Some of them gave free advice and some references to other consultants and lawyers. Others offered a huge bill. All in all, it was not very helpful. During the stay in the US, Lauri Paloheimo had a total of one productive talk with an HR director of a certain company, and the person asked to let him know once we have a full working product. One of the minor successes in New York was talking to TrainingIndustry Inc., which is the major training industry media in the United States, and confirming the potential credibility of our product and establishing the talks about a potential partnership, which never came to a fruitful result. Another small success was establishing communication with NYDLA (New York Distant Learning Association), which made a podcast with Panda Training later on. After 3 weeks in New York without much significant success, the founders retreated back to Helsinki.

Another expansion trip was to Amsterdam in the spring of 2017. It was devoted to re-planning and meeting of all three founders. This time most of the meetings were arranged in advance. There were not many though, only 2-3 client meetings with clients, others being about potential partnerships.

During the two weeks' stay, the founders were able to gather some useful information and to do a soft sell of an assessment of employees to a financial service group company CMIS, which was going through a transition. The impression we formed from a few meetings was the validation of the assessment product and its place on the market as well as the impression that Panda Training is trying to expand to a plausible yet foreign and unknown market too soon while not having a solid position in the primary market yet.

Straight after Amsterdam, the CEO and the CTO continued to San Francisco to go for a Global Silicon Valley conference and meet with local venture capitalists. The conference experience was relatively successful. Panda Training established new very promising investor connections. The San Francisco experience ended up in having no meetings at all: the founders did not book any beforehand and did not manage to arrange anything while there.

## 9.11 Customer relationship management

There are three parts to customer relationship management that the team foresees:

- User activation

The team is working on making sure that every registered user is engaged throughout the customer journey. Especially there is a need to ensure the value for companies who paid the subscription. As part of user activation strategy, the company is experimenting with gift cards as part of the subscription. These gift cards can be used for purchasing the training through Panda Training platform. The team is also developing an email newsletter campaign for all the potential customers to keep them in the loop with the company's advancement.

- Community development

One way to engage both clients and trainers is to create a community. Panda Training is working on facilitating the exchange of knowledge, sharing and generating the content among the members of Panda Training community with offline and online tools such as events, LinkedIn group and blog.

- Customer service

Excellent online support is a must. More than that, Panda Training wants to assist the clients with free headhunting: if they cannot find the right trainer on the platform, the team will headhunt that person for them. Also, in case of the ERP product Panda Training is offering training to help implement the system as part of the package.

## 10 FINANCE

### 10.1 ROI and ambiguity

The question of finance is simple in its essence: whether the return on investment (or ROI) is positive or negative. If ROI is positive, doing something is worth it. If it is negative - it is not. It makes sense to do things that bring the highest ROI. The complication comes in case of high ambiguity, which is a second nature especially in startup environments. In Panda Training's experience, a number of mistakes connected to this fact led to the funding, product and sales crises the company is in today. They were described in the previous chapters.

### 10.2 Expenses

Throughout the existence of the company the main expense has always been people and more precisely, developers. The approach used by Panda Training might be called an opposite to lean since the company focused on developing the product hoping that the assumptions regarding the product development would fit and that the sales would catch up with the constantly increasing development costs.

A lot of resources were spent in the areas that did not provide any fruitful outcomes. One example is a deal with the accelerator First Round. Another - legal contracts such as intellectual property filings, sales contract, employment contract, translation of a sales contract, etc. Probably, investments in all the legal contracts except the shareholder agreement would have better been allocated somewhere else. Another huge expense was conferences and expansion trips. Arctic15 which allowed the author to find out about the European Innovation Fund program and Slush which allowed to establish connection to investors are better examples of such expenses, but the results of both trips to the United States and various other conferences such as Viva-Tech are questionable.

Often it is hard to estimate whether the investment is going to turn out to be valuable based on short-term and long-term benefits. While short-term investments are attractive, long-term ones are usually the most important ones and it is often hard to find the balance. The company's CTO Milan Saric has the ability to see long-term opportunities, which definitely was a benefit to the team, but was also sometimes causing challenges looking in hindsight. One example is investment in mobile development. While we all know that mobile apps are a necessity in the modern world, while a lot of money was spent on development of an iOS app already, it still has not been published to date and arguably this money would have better been allocated somewhere else in the light of today's financial crisis of the company.

One of the decisions which allowed Panda Training to keep the costs down from the very beginning was doing the development in Serbia. It also led to a number of complications separating the team in two, yet it is hard to argue whether such separation outweighed the benefits of cutting the costs.

## 10.3 Sales assumptions

One thing which is clear in hindsight today is that so far it was totally impossible to predict the sales growth of the company. Panda Training was able to do the first step of verification of the product and go from 0 to 1st sale. Yet the company was not able to do the second step and go from 1st to 2nd sale (formally, from a small amount of sales to a slightly bigger one which could provide the validation of the demand and a growth trajectory). Due to this, evidence of the demand is very hard to claim as well as growth trajectory is impossible to estimate. Panda Training did not reach its escape velocity.



	Year to Date	2017	2018	2019
Revenue	EUR 15K	EUR 80K	EUR 515K	EUR 1.4M
Expenses	EUR 130K	EUR 300K	EUR 600K	EUR 1.1M
Customers	8	30	70	200
Profit	EUR -115K	EUR -220K	EUR -85K	EUR 300K

**Picture 6:** Slide from the pitch deck targeted towards investors. The sales growth was always shown to begin 'tomorrow'.

## 11 DISCUSSION

The condition of Panda Training by the time of writing is a serious crisis, namely, product, financial, HR and sales crisis.

The company bears an insurmountable amount of debt: €116 000. Part of it is debt to family and friends, which does not have monthly payment on it, yet the bank loan requires a strict €1 600 monthly payment. The company has also accumulated a total of €6 300 of bills, which it is unable to pay at the moment.

A positive piece of news is that Panda Training has €7 000 in development equipment assets, out of which though €2 000 are already allocated for repayment of the loan provided to the company by the author. There also seems to be a high chance of receiving a personal loan shared between the founders from Finnvera organization that could stretch the shutting down of the development office at the end of September. There is also a potential support of the Paloheimo family, which though has already been overused and to which the founders agreed to come to only in case of the solid repayment options.

From an HR perspective, Panda Training has at the moment the full-stack development team yet no one in the marketing and sales department left except the CEO. Taival Advisory,

Michael Hanf and Henri Virta are still very supportive and can help with consulting and finance issues.

Sales-wise there has been a very low traction so far (4 subscriptions, 1 training sold). There is a potential possibility to sell the €12 000 deal to Jollas but it bears a 2-week development debt. As well as that there is a verbal agreement to sign on the acquiring of the employee assessment from the CMIS Group that should convert into a €4 000 deal for Panda Training soon.

Investment opportunities are unclear at this point. The main prospects are a business angel, Reima Linnanvirta, and corporate venture capital Navitas Ventures, both of which went silent before July so their status is not defined. For many venture capital firms the lowest investment bar seems to be around €10 000 in monthly recurring revenue.

A very good asset of Panda Training is the fact that the first Tekes project was a success and therefore there is a high possibility to double the investment with the Tekes loan.

From a product perspective, Panda Training has an MVP (minimum viable product) yet it is unclear if its user experience and usability are good enough because of the low sales traction. There is a development debt in terms of migrating to a new development platform of approximately a month, which leads to complications in terms of shutting down the development immediately.

The biggest challenge for Panda Training currently seems to be the product-market fit. It is unclear what is the value proposition of the corporate training marketplace and what is missing in order to effectively sell it. Options in terms of what could be missing include lack of valuable, rare, famous trainers on the platform, not good enough design and user experience of the product, lack of proper marketing and sales capability and efforts of the team and lack of clear integration with the processes of old-school companies. Whether the problem is one of these four factors, a combination of them or something completely different is in question. What is also unclear is the value of the employee assessment recently sold to CMIS Group in The Netherlands. Is it valuable as a stand-alone product worth pivoting for or is it valuable as a go-to-market sales strategy allowing customers to acquire easier access and broader value out of the corporate training marketplace? Another question is the target audience for Panda Training. Is it growth companies or corporations and what could be the good timing to go after them? How valuable are the partnerships with corporations in order to trial the product on a big scale and whether it is worth to apply for various competitions published by corporations?

Intuitively there is a market for the product Panda Training is trying to develop. The exchange of knowledge in the modern corporate world is far from perfect and, in theory, an effective infrastructure for knowledge exchange could be invaluable.



## 12 CONCLUSION

One of the most important conclusions after experiment in building a digital marketplace startup is the importance of agile development of the company with the focus on sales and deliberate experiments around the business model and product-market fit. Successful multi-sided firms such as Microsoft, eBay, Yahoo!, and Diners Club, have taken time to test and tweak their platforms to build liquidity before making major investments (Evans 2004, 200). It is challenging to test the product without having one yet and what Panda Training did was clearly a mistake: fostering the development based solely on intuition without much validation of whether the product could sell. This scenario led to sales constantly trying to catch up with what development team was working on and being resistant to customer suggestions realising too late that the team is going to hit a brick wall with the product-market fit. Experimenting is easier said than done yet the red flags should have been raised earlier and the founders should have definitely questioned their assumptions more often. This mistake in the mindset is in big part what led the team to where we are today: not being clear about whether the nature of the sales problems lie in the design of the product, product-market fit or simply a failure of sales and marketing skill.

One of the mistakes that fostered this mindset and did not allow the team to see the problems early on is the mistake of validation. The founders considered the interest and positive feedback of the customers as validation. Certainly it is validation of the product, yet it is not enough. Strong validation comes from the customer commitment, either monetary or in a form of a signed contract. More than that, small sales numbers are also not good enough in terms of validation: it might be an accident and plain luck. What is the efficiency of finding one sale? If it is 10 000 calls, how scalable is it? Panda Training sold to a few customers but it never went over a small insignificant number of those. In spring 2016 the hype was around the positive response from the customers who saw our demo of the mobile application, heard the idealistic future product explanation of a sales manager and said that they were excited. It even drove the founders to try and expand to the United States, which in hindsight was a horrible and reckless decision.

Another conclusion connected to the previous one is that contracts are binding, but only them. Too often the team was getting happy about a potential sales or a finding deal that was about the funding deal only to find the silence on the other end for the next few months. It was hard for the founders to accept the unfortunate facts after celebrating very recently. While the absence of the contract is not binding so is its presence binding. The most painful experience was the signing of the 2-year contract with the First Round accelerator that the company is still paying for.

A habit of wasting resources excessively is connected to the First Round experience, especially in the time when there are resources available. Legal contracts, events, expansions trips and mobile apps development are the best examples of the excessive spending Panda Training did. Every €100 matter and in times when the company has €80 000 on the account it is especially difficult to realise. The most common false argument among the founders was "We shall invest now because if there is no progress in sales, we

will not be alive in 6 months and if there is progress this investment will not matter anyway". Apparently, 18 months later the company is still alive and those investments did matter.

Another important lesson learnt was understanding the investment environment. Early stage in the language of the venture capital firms is not the same as it is in the language of the founders. In the language of the founders the early stage of the company is the idea or maximum the demo or minimum viable product stage. In the language of the investors, early stage is a relatively functioning company with at least €10 000 in monthly revenue. Of course, sometimes the revenue is not required at all with some other business models or heavy-tech solutions but it was clearly not the case with the marketplace business model. It is still hard to believe when people say that investment round usually takes half a year to sometimes a year and a half but the experience shows that it might be close to reality.

HRNorge, which was an HR conference in January 2017 in Norway that the author and the head of sales attended, has given the founders the impression that the HR industry is in big flux. The very foundations that HR department is built on seem to be questioned. This and other similar experiences such as talks to hundreds of HR directors has shown the founders that despite the utter failure of the Panda Training's sales and marketing efforts there seems to be a market for the product the company is building.

Last, but not the least, every business situation has proven to be different and, of course, all of these conclusions are very subjective. Experience has shown the founders that ambiguity makes certain things unpredictable. One example is the Arctic15 conference where the author accidentally found out about the European Innovation Fund bank guarantees. The conference was unproductive except for this, but this insight itself paid it off completely. Nevertheless, even if it's not possible predict a lot of events, what is left is to do our best to navigate the uncertainty and calculate the risks with the best precision that is possible.

## REFERENCES

- Evans, D. 2003. Some Empirical Aspects of Multi-sided Platform Industries. Review of Network Economics Vol.2, Issue 3.
- Eisenmann T.; Parker G.; Alstyne M. 2006. Strategies for Two-sided Markets. Harvard Business Review.
- Hagiu A.; Wright J. 2013. Do You Really Want to Be an Ebay? Harvard Business Review.
- Hagiu A. 2014. Strategic Decisions for Multisided Platforms. MIT Sloan Management Review.
- Suarez F.; Kirtley J. 2012. Dethroning an Established Platform. MIT Sloan Management Review.
- Rochet J.; Tirole J. 2006. Two-sided markets: a progress report. RAND Journal of Economics Vol 37 No. 3.
- Evans, David S. 2003. The Antitrust Economics of Multi-Sided Platform Markets, Yale Journal on Regulation: Vol. 20: Iss. 2. Consulted 1.9.2017  
<http://digitalcommons.law.yale.edu/yjreg/vol20/iss2/4>
- Cusumano M.; Gawer A. 2002. The Elements of Platform Leadership. MIT Sloan Management Review Magazine. Consulted 1.9.2017  
<http://sloanreview.mit.edu/article/the-elements-of-platform-leadership/>
- Parker G.; Alstyne M. 2005. Two-Sided Network Effects: A Theory of Information Product Design. Management Science Vol. 51, No. 10.
- Baum J.; Silverman B. 2004. Picking winners or building them? Alliance, intellectual, and human capital as selection criteria in venture financing and performance of biotechnology startups. Journal of Business Venturing.
- Veale, D., Oliver, L., and van Langen, K. 1995. Three Coca-Cola perspectives on international management styles. Academy of Management Executive.
- Rosenblum, J., and Keller, R.A. 1994. Building a learning organization at Coopers & Lybrand. Planning Review, 22.
- Chui M.; Manyika J., Bughin J., Dobbs R., Roxburgh C., Sarrazin H., Sands G., Westergen M. 2012. The social economy: Unlocking value and productivity through social technologies. McKinsey Global Institute. Consulted 1.9.2017  
<http://www.mckinsey.com/industries/high-tech/our-insights/the-social-economy>

Accenture 2016. Liquid Workforce: Building the workforce for today's digital demands. Technology Vision. Consulted 1.9.2017

[https://www.accenture.com/fr-fr/\\_acnmedia/PDF-2/Accenture-Liquid-Workforce-Technology-Vision-2016-france.pdf](https://www.accenture.com/fr-fr/_acnmedia/PDF-2/Accenture-Liquid-Workforce-Technology-Vision-2016-france.pdf)

Gallup 2017. State of the American Workplace. Consulted 1.9.2017

<http://www.gallup.com/services/178514/state-american-workplace.aspx>

ATD Research 2015. Instructional Design Now: A New Age of Learning and Beyond. ATD Research. Consulted 1.9.2017

<https://www.td.org/Publications/Research-Reports/2015/Instructional-Design-Now>